
BEAR RIVER CITY

Audited Financial Statements

June 30, 2005

**Davis
& Bott**

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Bear River City
June 30, 2005

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The Mayor and City Council
Bear River City
Bear River City, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of Bear River City, Utah, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Bear River City, Utah. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, and the aggregate remaining fund information of Bear River City, Utah, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditors' Report
Bear River City

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2005, on our consideration of Bear River City, Utah's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10, and on page 31, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Davis & Bott

DAVIS & BOTT

Certified Public Accountants, L.C.

October 31, 2005

**Bear River City
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2005**

As management of Bear River City, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

- A. The assets of the City exceeded its liabilities at June 30, 2005, by \$1,579,725. Of this amount, unrestricted net assets of \$573,292 may be used to meet the City's ongoing obligations to citizens and creditors.
- B. The total net assets increased by \$45 over the prior year. Of this amount, a decrease of \$6,008 was associated with governmental activities and an increase of \$6,053 with business-type activities.
- C. As of the close of the current fiscal year, the City's general fund reported an ending fund balance of \$17,676, a decrease of \$3,801 in comparison with the prior year. Of this amount, \$10,960 is reserved for B & C Road Projects and \$6,716 is unreserved and available for spending, and represents 6 percent of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

Bear River City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, roads, parks and cemetery. The business-type activities of the City consist of irrigation, sewer, and garbage and street light utilities.

The government-wide financial statements include only the City itself (known as the primary government). There are no component units that should be reported in the City's financial statements.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Bear River City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions.

Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances for the general, capital projects and perpetual care funds. The City considers the general and perpetual care funds to be major funds and the capital projects fund to be a nonmajor fund. The capital projects fund is presented in the financial statements as it is the only nonmajor governmental fund.

The City adopts a one-year budget for its governmental funds. Budgetary comparison statements have been provided.

Proprietary Funds. The City maintains only one type of proprietary fund, namely, enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net assets and the proprietary statement of revenues, expenses and changes in fund net assets for the irrigation, sewer, and garbage and street light utility funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2005, the City's assets exceeded liabilities by \$1,579,725. By far the largest portion of the City's net assets (63 percent) reflects its investment in capital assets. Capital assets are used to provide services to citizens and they are not available for future spending.

**Bear River City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005**

Bear River City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 190,261	\$ 178,719	\$ 464,987	\$ 447,256	\$ 655,248	\$ 625,975
Capital assets	<u>756,312</u>	<u>775,418</u>	<u>313,299</u>	<u>322,690</u>	<u>1,069,611</u>	<u>1,098,108</u>
Total assets	946,573	954,137	778,286	769,946	1,724,859	1,724,083
Long-term liabilities outstanding	5,000	10,000	69,600	81,000	74,600	91,000
Other liabilities	<u>24,692</u>	<u>21,248</u>	<u>45,842</u>	<u>32,155</u>	<u>70,534</u>	<u>53,403</u>
Total liabilities	29,692	31,248	115,442	113,155	145,134	144,403
Net assets:						
Investment in capital assets, net of related debt	756,312	775,418	232,399	231,490	988,711	1,006,908
Restricted	17,722	16,951	-	-	17,722	16,951
Unrestricted	<u>142,847</u>	<u>130,520</u>	<u>430,445</u>	<u>425,301</u>	<u>573,292</u>	<u>555,821</u>
Total net assets	\$ <u>916,881</u>	\$ <u>922,889</u>	\$ <u>662,844</u>	\$ <u>656,791</u>	\$ <u>1,579,725</u>	\$ <u>1,579,680</u>

The unrestricted net assets of \$573,292 (36 percent) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year the City is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its individual governmental and business-type activities.

Bear River City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

Bear River City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 29,933	\$ 25,509	\$ 104,145	\$ 103,285	\$ 134,078	\$ 128,794
Operating grants grants and contributions	35,553	45,272	12,500	17,500	48,053	62,772
General revenues:						
Property taxes	14,388	15,138	-	-	14,388	15,138
Other taxes	59,983	57,404	-	-	59,983	57,404
Other	<u>10,978</u>	<u>6,832</u>	<u>9,422</u>	<u>6,661</u>	<u>20,400</u>	<u>13,493</u>
Total revenues	<u>150,835</u>	<u>150,155</u>	<u>126,067</u>	<u>127,446</u>	<u>276,902</u>	<u>277,601</u>
Expenses:						
General government	81,981	69,157	-	-	81,981	69,157
Public safety	-	9,682	-	-	-	9,682
Highways and public imp.	47,257	17,167	-	-	47,257	17,167
Parks and recreation	23,305	23,120	-	-	23,305	23,120
Irrigation utility	-	-	23,503	27,241	23,503	27,241
Sewer utility	-	-	65,517	56,146	65,517	56,146
Garbage utility	-	-	<u>35,294</u>	<u>31,594</u>	<u>35,294</u>	<u>31,594</u>
Total expenses	<u>152,543</u>	<u>119,126</u>	<u>124,314</u>	<u>114,981</u>	<u>276,857</u>	<u>234,107</u>
Excess (deficiency) before transfers	(1,708)	31,029	1,753	12,465	45	43,494
Transfer in (out)	<u>(4,300)</u>	<u>(4,300)</u>	<u>4,300</u>	<u>4,300</u>	-	-
Increase (decrease) in net assets	(6,008)	26,729	6,053	16,765	45	43,494
Prior period adjustment	-	-	-	41,933	-	41,933
Net assets beginning	<u>922,889</u>	<u>896,160</u>	<u>656,791</u>	<u>598,093</u>	<u>1,579,680</u>	<u>1,494,253</u>
Net assets ending	<u>\$ 916,881</u>	<u>\$ 922,889</u>	<u>\$ 662,844</u>	<u>\$ 656,791</u>	<u>\$ 1,579,725</u>	<u>\$ 1,579,680</u>

Bear River City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005

Governmental and Business-Type Activities. Governmental activities decreased the City's net assets by \$6,008. When combined with the \$6,053 increase in net assets from business-type activities, overall net assets increased by \$45, or less than 1 percent.

The decrease in governmental net assets is mainly due to professional services provided on the City's road network. The increase in business-type activities is due mainly to more sewer hookups in the current year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Government Funds. The purpose of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the City's chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,716, which comprises 38 percent of the total fund balance. The remaining general fund balance of \$10,960 is restricted for B&C Road uses. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved general fund balance represents 6 percent of total general fund expenditures. The fund balance of the City's general fund decreased by \$3,801 during the current fiscal year. This decrease was mainly due to transfers to other funds.

The capital projects fund increased mainly because of transfers from the general fund for anticipated future projects.

The cemetery fund increased mainly because of an increase in perpetual care services.

The irrigation utility fund's net assets increased by \$3,363.

The sewer utility fund's net assets decreased by \$5,453. This was due mainly to repairs to the sewer system.

**Bear River City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005**

The garbage and street light utility fund's net assets increased by \$8,142. This amount was anticipated.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original submitted budget for fiscal year 2005 was modified to increase the budget for road expenditures. The increase was necessary as road maintenance and repair projects performed in the current year were slightly higher. Additionally, a road survey was required during the year but not included in the original budget. The budget was amended to include the road study expenditure.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities at June 30, 2005, amounts to \$1,069,611 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, service lines, equipment, roads and similar infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was \$18,197 (a decrease of less than 2 percent for governmental activities and an increase of less than 1 percent for business-type activities).

**Bear River City's Capital Assets
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 83,130	\$ 83,130	\$ -	\$ -	\$ 83,130	\$ 83,130
Buildings	396,955	407,933	-	-	396,955	407,933
Improvements other than buildings	51,783	52,109	310,356	319,311	362,139	371,420
Equipment	27,280	29,124	2,943	3,379	30,223	32,503
Infrastructure	<u>197,164</u>	<u>203,122</u>	<u>-</u>	<u>-</u>	<u>197,164</u>	<u>203,122</u>
Net capital assets	<u>\$ 756,312</u>	<u>\$ 775,418</u>	<u>\$ 313,299</u>	<u>\$ 322,690</u>	<u>\$ 1,069,611</u>	<u>\$ 1,098,108</u>

Additional information on the City's capital assets can be found in Note 3 on page 27 of this report.

Long-term debt. At the end of the current fiscal year, the City had \$46,500 in outstanding revenue bonds and \$34,400 in unsecured.

**Bear River City
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2005**

Bear River City's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue bonds	\$ -	\$ -	\$ 46,500	\$ 52,500	\$ 46,500	\$ 52,500
Notes payable	-	-	34,400	38,700	34,400	38,700
Total	\$ -	\$ -	\$ 80,900	\$ 91,200	\$ 80,900	\$ 91,200

Total long-term debt decreased by \$10,300 for the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Bear River City is in the process of determining how to meet the increased demand for sewer system hookups. The present system has a limited number of remaining hookups before capacity is reached.

The City has received a sewer system feasibility study from Hansen & Associates and is also in the process of considering various sewer system options. The previous moratorium on number of hookups allowed to the sewer system has been lifted. Additionally, the City is in the process of eliminating surface water infiltration into the system.

The City has proposed an increase in the property tax rate for the upcoming year. This increase is a first of increases needed to bring the property tax valuation back to what it has been in the past. The proposed increase is 10 percent per year until the rate is back where it was. The increase in property tax revenue the City anticipates receiving in the upcoming 2005-2006 year will be approximately \$1,000.

The City has budgeted for the purchase of new mowing equipment that is needed to replace the old worn-out mowing equipment. A new mower is needed at the Park and a new mower is also needed for the streets.

The City also plans to work on improving the irrigation ditch. Consideration is being given to ways of improving the main ditch and increasing the effectiveness of distribution throughout the City. Improvements will be paid for from the irrigation fund. The City is seeking assistance from Utah State University with this project.

**Bear River City
Statement of Net Assets
June 30, 2005**

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$159,590	\$ 376,348	\$ 535,938
Accounts receivable - net	800	6,706	7,506
Property taxes receivable	10,715	-	10,715
Sales taxes receivable	10,971	-	10,971
Telecommunications tax receivable	1,423	-	1,423
Due from other governmental units	6,762	-	6,762
Prepaid assets	-	7,699	7,699
Interfund receivable	-	5,000	5,000
Restricted cash and cash equivalents	-	69,234	69,234
Capital assets (net of accumulated depreciation)			
Land	83,130	-	83,130
Buildings and improvements	448,738	310,356	759,094
Infrastructure	197,164	-	197,164
Equipment	<u>27,280</u>	<u>2,943</u>	<u>30,223</u>
Total assets	<u>\$946,573</u>	<u>\$ 778,286</u>	<u>\$1,724,859</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 14,352	\$ 18,599	\$ 32,951
Deferred revenue	10,340	15,943	26,283
Current portion of long-term debt	-	11,300	11,300
Interfund payable	5,000	-	5,000
Note payable	-	30,100	30,100
Loan payable revenue bonds	<u>-</u>	<u>39,500</u>	<u>39,500</u>
Total liabilities	<u>\$ 29,692</u>	<u>\$ 115,442</u>	<u>\$ 145,134</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$756,312	\$ 232,399	\$ 988,711
Restricted for:			
Class "C" roads	17,722	-	17,722
Unrestricted	<u>142,847</u>	<u>430,445</u>	<u>573,292</u>
Total net assets	<u>\$916,881</u>	<u>\$ 662,844</u>	<u>\$1,579,725</u>

The accompanying notes are an integral part of these statements

Bear River City
Balance Sheet - Governmental Funds
June 30, 2005

	General Fund	Permanent Fund	Other Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$30,849	\$92,032	\$36,709	\$159,590
Receivables (net):				
Accounts receivable	-	800	-	800
Property tax	10,715	-	-	10,715
Sales tax	10,970	-	-	10,970
Telecommunications tax	1,423	-	-	1,423
Intergovernmental	<u>6,762</u>	<u>-</u>	<u>-</u>	<u>6,762</u>
Total assets	<u>60,719</u>	<u>92,832</u>	<u>36,709</u>	<u>190,260</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	12,928	1,423	-	14,351
Deferred revenue	25,115	-	-	25,115
Interfund payable	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Total liabilities	<u>43,043</u>	<u>1,423</u>	<u>-</u>	<u>44,466</u>
Fund balances:				
Reserved for:				
Class "C" roads	10,960	-	-	10,960
Unreserved	<u>6,716</u>	<u>91,409</u>	<u>36,709</u>	<u>134,834</u>
Total fund balances	<u>17,676</u>	<u>91,409</u>	<u>36,709</u>	<u>145,794</u>
Total liabilities and fund balances	<u>\$60,719</u>	<u>\$92,832</u>	<u>\$36,709</u>	<u>\$190,260</u>

The accompanying notes are an integral part of these statements.

Bear River City
Reconciliation of the Balance Sheet of the Governmental
Funds to the Statement of Net Assets
June 30, 2005

Total fund balances -
governmental fund types \$ 145,794

Amounts reported for governmental
activities in the statement of net
assets are different because:

Capital assets used in governmental
activities are not financial
resources and, therefore, are
not reported in the funds. 756,312

Revenues not considered available
are deferred in the funds.
These included \$6,819 in sales
use taxes, \$1,423 in telecommunica-
tions tax, and \$6,763 in B&C
road allotment. 14,775

Net assets of government
activities \$ 916,881

The accompanying notes are an integral part of these statements.

Bear River City
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds
For the Year Ended June 30, 2005

	<u>General</u> <u>Fund</u>	<u>Permanent</u> <u>Fund</u>	<u>Other</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:				
Taxes	\$ 80,873	\$ -	\$ -	\$ 80,873
Licenses & permits	12,648	-	-	12,648
Intergovernmental	36,738	-	-	36,738
Charges for services	11,231	4,250	-	15,481
Sale of assets	-	2,425	-	2,425
Earnings on investments	790	1,753	739	3,282
Miscellaneous	<u>2,094</u>	<u>-</u>	<u>-</u>	<u>2,094</u>
Total revenues	<u>144,374</u>	<u>8,428</u>	<u>739</u>	<u>153,541</u>
Expenditures:				
Current:				
General government	70,069	-	2,949	73,018
Public safety	-	-	-	-
Highways and public improvements	41,336	-	1,068	42,404
Parks and recreation	<u>7,944</u>	<u>10,071</u>	<u>-</u>	<u>18,015</u>
Total expenditures	<u>119,349</u>	<u>10,071</u>	<u>4,017</u>	<u>133,437</u>
Excess (deficiency) of revenues over expenditures	<u>25,025</u>	<u>(1,643)</u>	<u>(3,278)</u>	<u>20,104</u>
Other financing sources (uses):				
Transfers in	-	6,050	18,476	24,526
Transfers out	<u>(28,826)</u>	<u>-</u>	<u>-</u>	<u>(28,826)</u>
Total other financing sources (uses)	<u>(28,826)</u>	<u>6,050</u>	<u>18,476</u>	<u>(4,300)</u>
Net change in fund balance	(3,801)	4,407	15,198	15,804
Fund balance at beginning of year	<u>21,477</u>	<u>87,002</u>	<u>21,511</u>	<u>129,990</u>
Fund balance at end of year	<u>\$ 17,676</u>	<u>\$91,409</u>	<u>\$36,709</u>	<u>\$145,794</u>

The accompanying notes are an integral part of these statements.

Bear River City
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of the Governmental Funds to
the Statement of Activities
June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 15,804
Governmental funds report capital outlays as expenditures. However, in the statement of activities the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(19,105)
Revenues in the statement of activities that do not provide current financial resources are not reported as in the funds.	<u>(2,707)</u>
Change in net assets of governmental activities	<u>\$ (6,008)</u>

The accompanying notes are an integral part of these statements.

Bear River City
Statement of Net Assets - Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise Funds			Total
	Irrigation Utility	Sewer Utility	Other Fund	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 27,608	\$307,956	\$40,784	\$376,348
Accounts receivable - net	957	2,299	3,450	6,706
Prepaid expense	7,699	-	-	7,699
Total current assets	<u>36,264</u>	<u>310,255</u>	<u>44,234</u>	<u>390,753</u>
Noncurrent assets:				
Restricted cash and cash equivalents	-	69,234	-	69,234
Advance to other fund	-	5,000	-	5,000
Capital assets (net of accumulated depreciation):				
Equipment	-	2,943	-	2,943
Improvements	166,334	144,022	-	310,356
Total noncurrent assets	<u>166,334</u>	<u>221,199</u>	<u>-</u>	<u>387,533</u>
Total assets	<u>202,598</u>	<u>531,454</u>	<u>44,234</u>	<u>778,286</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	1,220	14,360	3,019	18,599
Deferred revenue	15,943	-	-	15,943
Current portion of long-term debt	4,300	7,000	-	11,300
Total current liabilities	<u>21,463</u>	<u>21,360</u>	<u>3,019</u>	<u>45,842</u>
Noncurrent liabilities:				
Note payable	30,100	-	-	30,100
Loan payable revenue bonds	-	39,500	-	39,500
Total noncurrent liabilities	<u>30,100</u>	<u>39,500</u>	<u>-</u>	<u>69,600</u>
Total liabilities	<u>51,563</u>	<u>60,860</u>	<u>3,019</u>	<u>115,442</u>
Net assets:				
Invested in capital assets, net of related debt	131,934	100,465	-	232,399
Unrestricted	19,101	370,129	41,215	430,445
Total net assets	<u>\$151,035</u>	<u>\$470,594</u>	<u>\$41,215</u>	<u>\$662,844</u>

The accompanying notes are an integral part of these statements.

Bear River City
Statement of Revenues, Expenses and Changes in Fund
Net Assets - Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds			
	Irrigation	Sewer	Other Fund	Total
	Utility	Utility		
Operating revenues:				
Charges for services	\$ 21,561	\$ 29,159	\$42,581	\$ 93,301
Connection fees	-	9,500	-	9,500
Other	<u>344</u>	<u>999</u>	-	<u>1,343</u>
Total operating revenues	21,905	39,658	42,581	104,144
Operating expenses:				
Wages and benefits	2,077	2,766	4,606	9,449
Contracted services	12,863	11,299	24,929	49,091
Materials and supplies	-	-	1,345	1,345
Maintenance and repairs	2,509	30,068	-	32,577
Professional services	-	8,336	-	8,336
Utilities and insurance	-	3,336	4,114	7,450
Depreciation	5,502	3,890	-	9,392
Bad debt	528	3,347	190	4,065
Miscellaneous	<u>24</u>	<u>-</u>	<u>110</u>	<u>134</u>
Total operating expenses	<u>23,503</u>	<u>63,042</u>	<u>35,294</u>	<u>121,839</u>
Operating income	(1,598)	(23,384)	7,287	(17,695)
Nonoperating revenues (expenses):				
Interest revenue	461	8,106	855	9,422
Impact fee revenue	-	12,500	-	12,500
Interest expense	<u>-</u>	<u>(2,475)</u>	<u>-</u>	<u>(2,475)</u>
Total nonoperating revenues (expenses)	<u>461</u>	<u>18,131</u>	<u>855</u>	<u>19,447</u>
Income (loss) before transfers	(1,137)	(5,253)	8,142	1,752
Transfers in	<u>4,500</u>	<u>(200)</u>	<u>-</u>	<u>4,300</u>
Change in net assets	3,363	(5,453)	8,142	6,052
Total net assets - beginning	<u>147,672</u>	<u>476,047</u>	<u>33,073</u>	<u>656,792</u>
Total net assets - ending	<u>\$ 151,035</u>	<u>\$470,594</u>	<u>\$41,215</u>	<u>\$662,844</u>

The accompanying notes are an integral part of these statements.

Bear River City
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Irrigation Utility</u>	<u>Sewer Utility</u>	<u>Other Fund</u>	
Cash flows from operating activities:				
Receipts from customers	\$ 26,248	\$ 34,707	\$ 39,986	\$100,941
Payments to suppliers	(14,791)	(45,639)	(30,370)	(90,800)
Payments to employees	(1,768)	(2,513)	(4,422)	(8,703)
Net cash provided by (used in) operating activities	<u>9,689</u>	<u>(13,445)</u>	<u>5,194</u>	<u>1,438</u>
Cash flows from noncapital financing financing activities:				
Interfund loan repayments received	-	5,000	-	5,000
Transfers in (out)	<u>4,500</u>	<u>(200)</u>	<u>-</u>	<u>4,300</u>
Net cash provided by noncapital financing activities	<u>4,500</u>	<u>4,800</u>	<u>-</u>	<u>9,300</u>
Cash flows from capital and related financing activities:				
Capital contributions	-	12,500	-	12,500
Purchases of capital assets	-	-	-	-
Principal paid on capital debt	(4,300)	(6,000)	-	(10,300)
Interest paid on capital debt	<u>-</u>	<u>(2,625)</u>	<u>-</u>	<u>(2,625)</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,300)</u>	<u>3,875</u>	<u>-</u>	<u>(425)</u>
Cash flows from investing activities:				
Interest and dividends received	<u>461</u>	<u>8,105</u>	<u>856</u>	<u>9,422</u>
Net cash provided by (used in) investing activities	<u>461</u>	<u>8,105</u>	<u>856</u>	<u>9,422</u>
Net increase (decrease) in cash and cash equivalents	10,350	3,335	6,050	19,735
Cash and cash equivalents - beginning	<u>17,258</u>	<u>373,855</u>	<u>34,734</u>	<u>425,847</u>
Cash and cash equivalents - end	<u>\$ 27,608</u>	<u>\$377,190</u>	<u>\$ 40,784</u>	<u>\$445,582</u>

The accompanying notes are an integral part of these statements.

Bear River City
Statement of Cash Flows - Proprietary Funds (Continued)
For the Year Ended June 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Irrigation</u>	<u>Sewer</u>	<u>Other Fund</u>	<u>Total</u>
	<u>Utility</u>	<u>Utility</u>		
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	\$ (1,598)	\$ (23,384)	\$ 7,287	\$ (17,695)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation expense	5,502	3,890	-	9,392
(Increase)/decrease in accounts receivable	981	(1,603)	(2,407)	(3,029)
(Increase)/decrease in prepaid expenses	31	-	-	31
Increase (decrease) in accounts payable	884	7,652	314	8,850
Increase (decrease) in deferred revenue	<u>3,889</u>	<u>-</u>	<u>-</u>	<u>3,889</u>
Total adjustments	<u>11,287</u>	<u>9,939</u>	<u>(2,093)</u>	<u>19,133</u>
Net cash provided by operating activities	<u>\$ 9,689</u>	<u>\$ (13,445)</u>	<u>\$ 5,194</u>	<u>\$ 1,438</u>
Cash and cash equivalents	\$ 27,608	\$307,956	\$ 40,784	\$376,348
Restricted cash and cash equivalents	<u>-</u>	<u>69,234</u>	<u>-</u>	<u>69,234</u>
Total cash and cash equivalents	<u>\$ 27,608</u>	<u>\$377,190</u>	<u>\$ 40,784</u>	<u>\$445,582</u>

The accompanying notes are an integral part of these statements.

Bear River City
Notes to Financial Statements
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The government of Bear River City is governed by an elected mayor and five-member council. As required by generally accepted accounting principles, these financial statements present the financial condition of the government. Bear River City is not a component unit of any other entity, nor does it have any component units for which the Government would be considered financially accountable.

B. Government-Wide and Fund Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment.

Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. All individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statement rather than reported as an expenditure.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The government has the following fund types:

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable" and "available").

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues other than Class C road money available if they are collected within 30 days after year end. The City considers Class C road money to be available when the revenue is received. Expenditures are recorded when the related fund liability is incurred.

See Independent Auditors' Report

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *cemetery fund* is used to account for revenues and expenses associated with maintenance and upkeep of the cemetery.

Proprietary funds are accounted for on the flow of economic resources, measurement focus and use of accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers to the system.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

See Independent Auditors' Report

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City has three proprietary funds, the irrigation utility fund, the sewer utility fund and the garbage and street light utility fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. *Cash and Investments*

The government's restricted and unrestricted cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with the original maturities of three months or less from the date of acquisition. Currently, the only investing is done with the state treasurer's investment pool.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds", if they are not projected to be repaid within one year, and as "interfund receivable/payable" for amounts projected to be repaid within one year.

3. *Capital Assets*

Capital assets used in governmental fund type operations are accounted for in the governmental activities column in the statement of net assets, but not in governmental funds. Governmental capital assets consisting of certain improvements other than buildings, including roads, bridges, streets, drainage systems, lighting system, and some roads placed in service prior to June 30, 2003, have not been capitalized.

See Independent Auditors' Report

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible capital assets is charged as an expense against its operations in the government-wide financial statements and the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide and proprietary fund statements of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	25 - 50 years
Improvements	7 - 50 years
Equipment	3 - 20 years
Infrastructure	15 - 40 years

4. *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Budget and Budgetary Accounting

The City follows the budget and budgetary accounting procedures established by Utah law and described in the Uniform Accounting Manual for Utah Cities and Towns. The current year budget was amended according to Utah law.

See Independent Auditors' Report

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Restricted Net Assets

Net assets have been restricted for Class "C" road purposes. The Class "C" road restriction represents funds received from the State of Utah Road Fund allotment to be used for future maintenance of the City's road network.

NOTE 2. CASH AND INVESTMENTS

At year end, Bear River City's carrying amount of deposits was \$154,381 and the bank balance was \$156,554; of the bank balance, \$100,000 was FDIC insured and \$56,554 was uncollateralized.

Statutes authorize Bear River City to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, Commercial Paper Rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record and the State Treasurer's Investment Pool. Investments in the State Treasurer's Investment Pool are unrated for credit risk purposes.

Bear River City's investments and restricted cash at year end are shown below:

	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	\$ 162,425	\$ 162,450
State Treasurer's Pool	<u>288,366</u>	<u>288,410</u>
(Uninsured and unregistered)		
Total investments	<u>\$ 450,791</u>	<u>\$ 450,861</u>

Included in the above amounts are a restricted amount of \$9,325 for the sewer bond payment reserve, \$59,909 is the sewer impact fee account and \$36,709 has been designated by the City Council for use on curb and gutter in front of the new City Hall.

See Independent Auditors' Report

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year:

Governmental Activities:

	June 30, 2004			June 30, 2005
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 83,130	\$ -	\$ -	\$ 83,130
Capital assets being depreciated:				
Infrastructure	228,359	-	-	228,359
Buildings and improvements	525,730	2,949	-	528,679
Machinery and equipment	<u>61,928</u>	<u>1,068</u>	<u>-</u>	<u>62,996</u>
Totals at historical cost	<u>899,147</u>	<u>4,017</u>	<u>-</u>	<u>903,164</u>
Less accumulated depreciation:				
Infrastructure	(25,237)	(5,957)	-	(31,194)
Buildings and improvements	(65,688)	(14,254)	-	(79,942)
Machinery and equipment	<u>(32,804)</u>	<u>(2,912)</u>	<u>-</u>	<u>(35,716)</u>
Total accumulated depreciation	<u>(123,729)</u>	<u>(23,123)</u>	<u>-</u>	<u>(146,852)</u>
Governmental activities capital assets - net	<u>\$ 775,418</u>	<u>\$ (19,106)</u>	<u>\$ -</u>	<u>\$ 756,312</u>

See Independent Auditors' Report

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 3. CAPITAL ASSETS (continued)

Business-Type Activities:

	June 30, 2004			June 30, 2005
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets being depreciated:				
Improvements other than buildings	\$ 680,026	\$ -	\$ -	\$ 680,026
Equipment	<u>19,068</u>	<u>-</u>	<u>-</u>	<u>19,068</u>
Totals at historical cost	<u>699,094</u>	<u>-</u>	<u>-</u>	<u>699,094</u>
Less accumulated depreciation:				
Improvements other than buildings	(360,715)	(8,955)	-	(369,670)
Equipment	<u>(15,689)</u>	<u>(436)</u>	<u>-</u>	<u>(16,125)</u>
Total accumulated depreciation	<u>(376,404)</u>	<u>(9,391)</u>	<u>-</u>	<u>(385,795)</u>
Business-type activities capital assets - net	<u>\$ 322,690</u>	<u>\$ 9,391</u>	<u>\$ -</u>	<u>\$ 313,299</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 11,912
Highways and public improvements	5,920
Parks and recreation	<u>5,290</u>
Total depreciation expense governmental activities	<u>\$ 23,122</u>

NOTE 4. LONG-TERM DEBT

Proprietary Fund

Revenue Bond:

Water and sewer serial bonds in the amount of \$147,500, due in annual installments of \$7,000 plus interest through January, 2007, and then between \$7,000 and \$9,000 plus interest through January, 2012.

See Independent Auditors' Report

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 4. LONG-TERM DEBT (Continued)

Note Payable:

Note payable to Bear River Canal Company in the amount of \$88,752 due in twenty-two (22) annual installments equal to or greater than \$4,200 through December, 2013; no interest unless payment is delinquent - delinquent payments are subject to interest charge of 18.0 percent per annum.

	June 30, 2004			June 30, 2005	Current Portion
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Portion</u>
Note and bond payable:					
Revenue bond payable	\$52,500	\$ -	\$ 6,000	\$46,500	\$ 7,000
Note payable	<u>38,700</u>	<u>-</u>	<u>4,300</u>	<u>34,400</u>	<u>4,300</u>
 Total long-term liabilities	 <u>\$91,200</u>	 <u>\$ -</u>	 <u>\$10,300</u>	 <u>\$80,900</u>	 <u>\$11,300</u>

Debt Service Requirements:

The debt service requirements for the proprietary funds long-term debt at June 30, 2005, are as follows:

Year ending June 30:	
2006	\$ 11,300
2007	11,300
2008	12,300
2009	11,300
2010	13,300
Thereafter	<u>21,400</u>
 Total	 <u>\$ 80,900</u>

See Independent Auditors' Report

Bear River City
Notes to Financial Statements (Continued)
June 30, 2005

NOTE 5. RESTRICTED FUND BALANCE

Fund balance has been restricted for the following purpose:

Restricted for Class "C" roads - money received from the State of Utah road fund allotment to be used for future maintenance of the City's road network.

NOTE 6. PROPERTY TAX

Property taxes attached as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due November 30. Property tax revenues are not recognized when levied because they are not expected to be collected within 60 days after the end of the current year. This policy meets the criteria of GASB. Property taxes received within thirty (30) days of year end are recognized as revenue at year end.

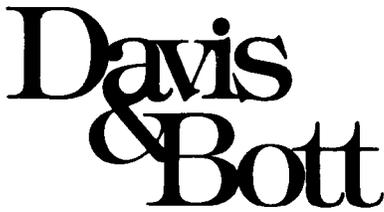
NOTE 7. RISK MANAGEMENT

Bear River City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. All general liability, real property and all vehicles, including heavy equipment, are insured through the Utah Local Government Trust. Injuries to employees are insured through employees' workers compensation. Settled claims have not exceeded the City's insurance coverage for any of the past three years. For insured programs, there have been no significant reductions in insurance coverage.

See Independent Auditors' Report

Bear River City
Budgetary Comparison Schedule (Unaudited)
General Fund
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes	\$ 67,102	\$ 67,102	\$ 80,873	\$ 13,771
Licenses and permits	8,600	8,600	12,648	4,048
Intergovernmental	40,200	40,200	36,738	(3,462)
Charges for services	14,050	14,050	11,231	(2,819)
Earnings on investments	2,000	2,000	790	(1,210)
Miscellaneous	1,500	1,500	2,094	594
Total revenues	<u>133,452</u>	<u>133,452</u>	<u>144,374</u>	<u>10,922</u>
Expenditures:				
General government	78,500	70,100	70,069	31
Public safety	2,000	2,000	-	2,000
Highways and public improvements	35,000	44,000	41,336	2,664
Parks and recreation	7,500	19,100	7,944	11,156
Total expenditures	<u>123,000</u>	<u>135,200</u>	<u>119,349</u>	<u>15,851</u>
Excess (deficiency) of revenues over expenditures	10,452	(1,748)	25,025	26,773
Other financing sources (uses):				
Transfers in	10,000	10,000	-	10,000
Transfers out	(18,800)	(18,800)	(28,826)	(10,026)
Total other financing sources (uses)	<u>(8,800)</u>	<u>(8,800)</u>	<u>(28,826)</u>	<u>(26)</u>
Net change in fund balances	1,652	(10,548)	(3,801)	26,747
Fund balance at beginning of year	<u>21,477</u>	<u>21,477</u>	<u>21,477</u>	<u>-</u>
Fund balance at end of year	<u>\$ 23,129</u>	<u>\$ 10,929</u>	<u>\$ 17,676</u>	<u>\$ 26,747</u>



Certified Public Accountants, L.C.

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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the Bear River City Council
Bear River City, Utah 84301

We have audited the financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of Bear River City, Utah, as of and for the year ended June 30, 2005, which collectively comprise the City of Bear River's basic financial statements and have issued our report thereon dated October 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bear River City, Utah's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (Continued)

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Bear River City, Utah, in a separate letter dated October 31, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bear River City, Utah's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we have reported to the management of Bear River City, Utah, in a separate letter dated October 31, 2005.

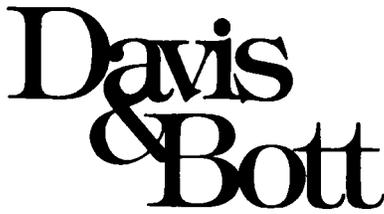
This report is intended solely for the information and use of management, the City Council, and the various state funding and auditing agencies and is not intended to be, and should not be used by, anyone other than these specified parties.



DAVIS & BOTT

Certified Public Accountants, L.C.

October 31, 2005



Certified Public Accountants, L.C.

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**AUDITORS' REPORT ON
STATE OF UTAH LEGAL COMPLIANCE**

The Honorable Mayor and Members of the
Bear River City Council
Bear River City, Utah 84301

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of Bear River City, Utah, for the year ended June 30, 2005, and have issued our report thereon dated October 31, 2005. As part of our audit, we have audited the City of Bear River's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major assistance programs from the State of Utah:

- * B & C Road Funds (Department of Transportation)
- * Liquor Law Enforcement (State Tax Commission)

The City also received no nonmajor grants during the current audit period.

Our audit also included test work on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- * Public Debt
- * Cash Management
- * Purchasing Requirements
- * Budgetary Compliance
- * Truth in Taxation & Property Tax Limitations
- * Liquor Law Enforcement
- * B & C Road Funds
- * Other General Compliance Issues
- * Uniform Building Code Standards
- * Impact Fees and Other Development Fees

AUDITORS' REPORT ON STATE OF UTAH
LEGAL COMPLIANCE
(Continued)

The management of Bear River City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying letter of recommendations. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Bear River City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Davis & Bott

DAVIS & BOTT
Certified Public Accountants, L.C.

October 31, 2005

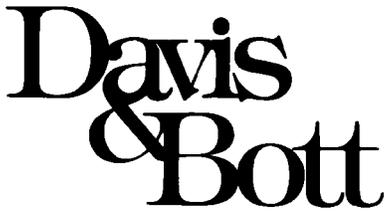
BEAR RIVER CITY

Letter of Recommendations

June 30, 2005

**Davis
& Bott**

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MAYOR AND CITY COUNCIL
BEAR RIVER CITY
Bear River City, UT 84301

We have audited the financial statements of Bear River City for the year ended June 30, 2005, and have issued our report thereon dated October 31, 2005. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Bear River City is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Bear River City taken as a whole.

However, our study and evaluation disclosed the following reportable or agreed-upon conditions that we believe result in a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of Bear River City may occur and not be detected within a timely period.

CURRENT YEAR RECOMMENDATIONS

None

PRIOR YEAR RECOMMENDATIONS

1. **SEGREGATION OF DUTIES**

Issue -- Bear River City has insufficient segregation of duties due to the small size of the entity.

Recommendation -- We recommend the City look at the cost versus the benefit of improving the segregation of duties.

Response -- Bear River City has a City clerk and a treasurer. They try to segregate duties as much as possible between the two employees. The City feels that the additional cost involved to completely segregate duties is not feasible for the benefit they would receive. They feel that their current procedures are adequate to safeguard assets.

Current Status - Segregation of duties remains insufficient due to the size of the City.

2. **BUDGETING**

Issue -- Two departments in the general fund had expenditures in excess of budget. Additionally, the cemetery fund had expenditures in excess of budget.

Recommendation -- We recommend the expenditures be monitored more closely and that proper budgeting procedures for all transactions be followed.

Response -- The City will implement this recommendation in the future.

Current Status - The recommendation has been implemented.

PRIOR YEAR RECOMMENDATIONS (Continued)

3. UDOT REPORTING

Issue -- A copy of the State Legal Compliance Audit report is to be submitted to UDOT within six months of the fiscal year end. This was not done.

Recommendation -- We recommend that the required report be submitted to UDOT.

Response -- The City will implement in the future.

Current Status - This recommendation has been implemented.

4. TIMELY DEPOSITS

Issue -- The City is not following the cash management procedures of making deposits at least every three days.

Recommendation -- We recommend that the City deposit within the three-day period.

Response -- Deposits for large amounts are made within the three day time period, however, when small sums of money are received they may not be deposited that quickly. Bear River City does not have a bank within their City limits, and because of this reason are depositing when it is convenient, and at least once every week.

Current Status -- This recommendation has not been implemented.

CONCLUSION

The matters discussed herein have been brought to the attention of responsible City personnel during the course of our examination. As a result, many of these recommendations are either being implemented or are under consideration at the time of issuance of this letter.

We wish to take this opportunity to express our thanks and appreciation for the courtesy and assistance extended to us by your personnel during our audit work.

Bear River City
Letter of Recommendations
Page Four

We welcome the opportunity to discuss further any points mentioned herein. We feel that proper implementation of these suggestions will improve internal controls and protect the City's assets.

Davis & Bott

DAVIS & BOTT

Certified Public Accountants, L.C.

October 31, 2005
Brigham City, Utah